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Review of the efficiency of the administrative and financial functioning of the United Nations

Review of the implementation of General Assembly resolutions 48/218 B, 54/244 and 59/272

Activities of the Independent Audit Advisory Committee for the period from 1 August 2008 to 31 July 2009

Report of the Independent Audit Advisory Committee

Summary

The present report covers the period from 1 August 2008 to 31 July 2009. The Independent Audit Advisory Committee held four sessions during that period, all of which were presided over by David M. Walker (United States of America). Mr. Walker and Vijayendra Nath Kaul (India) were re-elected Chairperson and Vice-Chairperson, respectively, for 2009.

Section II of the report contains an overview of the activities of the Committee, the status of its recommendations and its plans for 2010. Section III presents the detailed comments of the Committee.

Included as an annex to the report is the advice of the Committee on the effectiveness, efficiency and impact of the audit activities and other oversight functions of the Office of Internal Oversight Services, submitted for consideration by the General Assembly in its review of the functions and reporting procedures of that Office.

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I. Introduction

1. The General Assembly, by resolution 60/248 of 23 December 2005, established the Independent Audit Advisory Committee as a subsidiary body to serve in an expert advisory capacity and to assist it in fulfilling its oversight responsibilities. In accordance with its terms of reference (see General Assembly resolution 61/275, annex), the Committee is authorized to hold up to four sessions per year. The Committee has held seven sessions since its inception in January 2008.

2. In accordance with its terms of reference, the Independent Audit Advisory Committee submits an annual report to the General Assembly, containing a summary of its activities and related advice. The first annual report of the Committee (A/63/328) was submitted for the period from 1 January to 31 July 2008. The present, second annual report covers the period from 1 August 2008 to 31 July 2009.

3. Annexed to the report are the observations, comments and recommendations of the Committee on the effectiveness, efficiency and impact of the oversight activities of the Office of Internal Oversight Services (OIOS). The Committee decided to present these separately as an annex to facilitate reference to the report during the review by the General Assembly at its 64th session of the functions and reporting procedures of OIOS.

II. Activities of the Independent Audit Advisory Committee

A. Overview of the sessions of the Committee

4. During the reporting period, the Independent Audit Advisory Committee held four sessions, from 1 to 3 December 2008 (fourth session), 20 to 22 February (fifth session), 13 to 15 April 2009 (sixth session) and 30 June to 2 July 2009 (seventh session). All of the sessions were held at United Nations Headquarters.

5. The Committee functions under its adopted rules of procedure, as contained in the annex to its first annual report A/63/328. To date, all members of the Committee have a 100 per cent attendance rate at its sessions. All decisions of the Committee have been unanimous, however, its rules of procedure do make provision for members to record their dissent with decisions taken by the majority.

6. At its fourth session in December 2008, the members re-elected David M. Walker (United States of America) and Vijayendra N. Kaul (India) as Chairperson and Vice-Chairperson, respectively, for 2009. On 18 December 2008, the Committee launched the English language version of its website and will complete the implementation of the website in the other official languages of the United Nations by August 2009, one month later than planned.

7. The Independent Audit Advisory Committee has submitted six reports to the General Assembly, three of which have been submitted in the current reporting period. These include its reports to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions, on the budget for OIOS under the support account for peacekeeping operations for the period from 1 July 2009 to 30 June 2010 (A/63/703) and the proposed programme budget of OIOS for

the biennium 2010-2011 (A/64/86). The Committee also submitted a report to the General Assembly on vacant posts in OIOS (A/63/737).

B. Status of the recommendations of the Committee

8. The Committee has made 29 recommendations in its reports. Two of the 29 recommendations were made in its report on the proposed programme budget of OIOS for the biennium 2010-2011 (A/64/86), which will be considered by the General Assembly at its sixty-fourth session. Of the remaining 27 recommendations, 13 have been implemented, another 13 are in the process of being implemented and 1 was not commented on by the General Assembly.

9. Although it meets only four times a year for two or three days at each session, the Committee has made significant achievements to date, particularly in relation to the operations of OIOS. The Committee follows up on the implementation of its recommendations as a standard agenda item at each session and looks forward to seeing their full effect in the actions taken by OIOS and management. Some of the significant recommendations that the Committee has made relate to:

(a) Improving cooperation between OIOS and the Board of Auditors and the Joint Inspection Unit by means of an annual joint planning session with the Board and the Unit to ensure that the workplans of these oversight bodies are taken in consideration before OIOS workplans are finalized;

(b) The need for modification of the risk-based approach of OIOS to work planning for internal audit, involving revision of the OIOS risk assessment framework to include the effect of controls that management has put in place in the assessment of residual risk. It is important to note that these measures are required since management is yet to implement its enterprise risk management and internal control framework. In addition, the Committee recommended that the OIOS Investigations Division should prepare workplans addressing its existing investigation caseload;

(c) The reorganization of the OIOS Investigations Division using a hub and spoke structure in a phased manner that retains some investigative capacity at high-risk missions;

(d) The need for OIOS to focus on the value it delivers to the Organization as a return of the Organization's investment in internal oversight. Suitable metrics and performance indicators should be developed for this purpose;

(e) The need for a definition of key oversight terms, such as savings, loss and damages, which should be undertaken by OIOS in consultation with the Office of Legal Affairs and the Department of Management. The Committee will address how the term "independence" should be applied to OIOS;

(f) The immediate and urgent action required to fill vacant posts in OIOS, particularly at the senior management levels and especially that of Director of the Investigations Division, in order to ensure that the effectiveness and efficiency of OIOS in the performance of its mandated functions is not compromised.

C. Overview of the plans of the Committee for 2010

10. The Committee undertook its responsibilities, as set out in its terms of reference, in accordance with the scheduling of the sessions of the Advisory Committee on Administrative and Budgetary Questions and the General Assembly. The Committee will continue to schedule its sessions and activities to ensure that interaction with intergovernmental bodies is coordinated and that the availability of its reports is timely. In a preliminary review of its workplan, the Committee has identified several key areas which will be the main focus at each of its four sessions in 2010 (see table).

Workplan of the Committee for 2010

Sessions	*Key focus area*	*Intergovernmental consideration of the report of the Committee*
Ninth	Proposed budget for OIOS under the support account for peacekeeping operations for the period from 1 July 2010 to 31 July 2011	Advisory Committee on Administrative and Budgetary Questions, fourth quarter 2010
	Enterprise risk management and internal control framework	General Assembly
Tenth	Status of implementation of oversight bodies recommendations	
	Management of risks and internal controls	
Eleventh	Operational implications of issues and trends in financial statements and reports of the Board of Auditors	General Assembly, main part of the sixty-fifth session
	Cooperation among United Nations oversight bodies	
	Review of the terms of reference of the Independent Audit Advisory Committee	
	Preparation of the annual report of the Committee	
Twelfth	Results of OIOS risk assessment	
	Workplans of OIOS for 2011	

11. In the discussion on planning for 2010, the Committee identified the following relevant events:

(a) Review by the General Assembly of the terms of reference of the Independent Audit Advisory Committee at its sixty-fifth session (General Assembly resolution 61/275);

(b) The end of the term of appointment of three of the five Committee members, whose three-year term expires in December 2010;

(c) The expiration of the term of appointment of the Under-Secretary-General for Internal Oversight Services on 15 July 2010.

12. The Independent Audit Advisory Committee may make proposals to the General Assembly for amendments to its terms of reference, based on its operational experience over the past three years. These proposals will be contained in the annual report of the Committee, to be submitted to the General Assembly at its sixty-fifth session.

III. Detailed comments of the Committee

A. Status of the recommendations of United Nations oversight bodies

13. At its seventh session, the Committee reviewed the status of implementation by management of the recommendations of United Nations oversight bodies. The Committee noted the concern raised by the Board of Auditors in its report on the implementation of its recommendations relating to the biennium 2006-2007 as at 31 March 2009 (A/64/98). The Board reported an overall implementation rate of 27 per cent for the recommendations made in its report on the United Nations accounts for the biennium 2006-2007. The Department of Management reported to the Committee that a large number of the Board's recommendations were planned for full implementation during the second half of 2009 and that the implementation rate would change substantially by the end of the year.

14. According to the report of the Board of Auditors on United Nations peacekeeping operations for the 12-month period from 1 July 2007 to 30 June 2008 (A/63/5 (Vol. II), chap. II), the rate of implementation of the recommendations made for 2006-2007 in respect of peacekeeping operations was 32 per cent. The Board noted a decrease in the implementation rate compared to the previous year. The Department of Management acknowledged the low implementation rate and reported to the Committee that the Management Committee, under the chairmanship of the Deputy Secretary-General, was making a concerted effort to stress to programme managers the need to implement expeditiously all of the recommendations of oversight bodies and would continue to monitor closely their implementation. The Management Committee follows up on a quarterly basis: (a) recommendations that OIOS reports to be of most concern; (b) the main recommendations of the Board of Auditors that have been outstanding for more than two years; and (c) all critical recommendations of OIOS that are more than three years old and not yet fully implemented.

15. In addition, as indicated in the first annual report of the Committee (A/63/328), the implementation of oversight recommendations is a performance indicator in the compact between the Secretary-General and his senior managers. The Management Performance Board reviews the performance of senior managers through that compact.

16. The Department of Management drew the attention of the Committee to the high number of recommendations issued by OIOS, which average approximately 2,[illegible]0 per year. Of the 2,028 recommendations made by OIOS in 2008, the

Department of Management reported that 49 per cent had been implemented and that the implementation rate of recommendations issued by OIOS three and four years ago was 89 per cent and 95 per cent, respectively.

17. The Committee acknowledges the positive trend in the implementation of OIOS recommendations. Notwithstanding this trend, management has expressed its concern to the Committee regarding the increasing number of recommendations issued by OIOS. While the Committee does not make any judgement in respect of the number of recommendations issued by OIOS, the concern expressed by management has been noted for follow-up with OIOS. OIOS has indicated that efforts have been made to ensure that recommendations are relevant and add value, and that it does not use the number of recommendations as a performance indicator. The Committee makes additional comments regarding the number of recommendations issued by OIOS in the annex to the present report.

B. Workplan and budget of the Office of Internal Oversight Services for 2009

18. The responsibilities of the Independent Audit Advisory Committee with respect to OIOS are set out in its terms of reference and include the examination by the Committee of the workplans of OIOS, taking into account the workplans of the other oversight bodies, and advising the General Assembly thereon.

19. The Committee reported its observations and recommendations in regard to OIOS workplans in its reports on the budget for OIOS under the support account for peacekeeping operations for the period from 1 July 2009 to 30 June 2010 (A/63/703) and the proposed programme budget for OIOS for the biennium 2010-2011 (A/64/86). In respect of the former report, the General Assembly agreed with the recommendations made in relation to OIOS work planning and, by resolution 63/287, requested the Secretary-General to entrust OIOS to implement them. The latter report of the Committee is scheduled for consideration by the General Assembly at its sixty-fourth session.

20. The Committee recalls its recommendations made in the above-mentioned reports and reiterates that management has the primary responsibility for assessing and managing organizational and related risks. As stated in its report on the proposed programme budget for OIOS for the biennium 2010-2011 (A/64/86, para. 11), the Committee and OIOS agreed that an assessment of inherent risks only would provide an overly conservative estimate of the level of risks in an organization, and while that approach might be acceptable for prioritizing the use of existing resources, it would not be appropriate or practical as a basis for proposing the total level of resource requirements. The Committee therefore made no comment on the proposed programme budget for OIOS subprogramme 1, internal audit, for the biennium 2010-2011. In the absence of a management initiative to assess risks, the Committee notes that the task of OIOS of preparing a risk register taking into account the effect of internal controls will be resource intensive and will take a considerable time to complete. The Committee will continue to support and advise OIOS in this process.

21. The workplans of an internal audit entity are typically based on an assessment of risk and the exposure of the organization to those risks. Internal audit entities use risk assessments to make decisions about the level of resources required to address a

workplan and the priority that will be assigned to the internal audits in the plan. Risk models and frameworks are commonly used to assist the internal audit entity in developing their workplans. Most risk models use a combination of risk factors, such as impact, likelihood, materiality, asset liquidity, management competence, degree of change or stability, timing and results of most recent audit engagement, complexity, and quality of and adherence to applicable internal controls.

C. Risk management and internal control framework

22. Subparagraphs 2 (f) and (g) of the terms of reference of the Independent Audit Advisory Committee specifically mandate the Committee with the responsibility to advise the Assembly on the quality and overall effectiveness of risk management procedures and on deficiencies in the internal control framework of the United Nations.

23. The Committee noted that the General Assembly, in its resolution 63/276, had decided not to endorse the proposed accountability framework of the Secretary-General and had requested a comprehensive report on, inter alia, a proposed detailed plan and road map for the implementation of the enterprise risk management and internal control framework. The Independent Audit Advisory Committee will prepare its comments and advice to the General Assembly once that report has been completed and made available to the Committee.

D. Cooperation and access

24. The Independent Audit Advisory Committee is pleased to report that it has received the full cooperation of the Board of Auditors, OIOS and the senior management of the United Nations Secretariat, including the Department of Management, in discharging its responsibilities. The Committee was also given appropriate access to the staff, documents and information it needed to undertake its work.

(*Signed*) David M. **Walker**
Chairman, Independent Audit Advisory Committee

(*Signed*) Vijayendra N. **Kaul**
Vice-Chairman, Independent Audit Advisory Committee

(*Signed*) Vadim V. **Dubinkin**
Member, Independent Audit Advisory Committee

(*Signed*) John F. S. **Muwanga**
Member, Independent Audit Advisory Committee

(*Signed*) Adrian P. **Strachan**
Member, Independent Audit Advisory Committee

Annex

Observations, comments and recommendations of the Independent Audit Advisory Committee on the effectiveness, efficiency and impact of the audit activities and other oversight functions of the Office of Internal Oversight Services

I. Background

1. Since establishing the Office of Internal Oversight Services (OIOS) at its forty-eighth session, the General Assembly has taken successive decisions to review the functions and reporting procedures of the Office every five years. Subsequent to the forty-eighth session, the review of those functions and procedures was placed on the agenda of the General Assembly at its fifty-fourth session (1999) and at its fifty-ninth (2004) when, by resolution 59/272, the Assembly decided to evaluate and review the functions and reporting procedures of OIOS at the present, sixty-fourth session.

2. The Independent Audit Advisory Committee sought direction from the General Assembly as to the role the Assembly might require the Committee to play in the forthcoming review of OIOS (see A/63/328, para. 17). In response, the General Assembly, in resolution 63/265, recalled that one of the responsibilities of the Independent Audit Advisory Committee, according to its terms of reference, was to advise the General Assembly on the effectiveness, efficiency and impact of the audit activities and other oversight functions of OIOS. The Committee accepted this as a mandate from the General Assembly to provide advice on the effectiveness, efficiency and impact of the audit activities and other oversight functions of OIOS as input for the review by the Assembly at its sixty-fourth session.

II. Data collection and review process of the Independent Audit Advisory Committee

3. The Committee developed a plan to collect relevant data for analysis and prepare its input to the General Assembly. Two approaches were employed in the Committee's data-gathering process: a survey questionnaire and supplementary structured interviews with selected senior managers.

4. The Committee conducted a survey of 191 judgmentally sampled senior United Nations staff members (D-1 level and above) from entities that are subject to OIOS oversight. These included departments of the United Nations Secretariat, the United Nations Offices at Geneva, Nairobi and Vienna, the United Nations Joint Staff Pension Fund, the Office of the United Nations High Commissioner for Refugees, the Office of the United Nations High Commissioner for Human Rights, the United Nations Human Settlements Programme (UN-Habitat), the United Nations Office on Drugs and Crime and the United Nations Environment Programme.

5. The survey questionnaire which was distributed in March 2009, included questions relating to the performance of OIOS, the quality and professionalism of its outputs and staff, the impact of its oversight functions on programmes and the

overall level of satisfaction with its work. The survey was administered electronically and the individual responses are confidential. The response rate to the survey was 45 per cent, that is, 87 responses were received to the 191 questionnaires sent out. This response rate is considered reasonable in the light of anecdotal information that the response rate for surveys in the United Nations Secretariat are typically in the 25-30 per cent range. In the Committee's view, however, while the response data were useful, the response rate was not adequate to draw statistically reliable conclusions about the sample population as a whole.

6. The Committee supplemented the survey information by conducting 19 structured interviews with senior managers. These included selected Under-Secretaries-General and Assistant Secretaries-General, and heads of funds and programmes for which OIOS has internal oversight responsibility. The interviews were conducted in New York by the Chairperson of the Committee, David M. Walker, in Geneva and Vienna by the Vice-Chairperson, Vijayendra N. Kaul, and in Nairobi by John F. S. Muwanga.

7. The Committee wishes to take this opportunity to express its thanks to all of the respondents to the survey and to the senior managers for taking time from their busy schedules to meet with the respective Committee members and respond to questions. The information gathered proved useful to the work of the Committee and, in many respects, served to corroborate its views.

III. Observations, comments and recommendations

8. Set out below are the observations, comments and recommendations of the Independent Audit Advisory Committee, based on the information gathered from the responses to the survey questionnaire, supplemented by interviews with senior management, and the observations of members of the Committee over the past 18 months.

9. The Committee recognizes the precedence of all legislative decisions contained in General Assembly resolutions concerning OIOS. The observations, comments and recommendations contained in the present report are therefore made within the context of those resolutions, in particular General Assembly resolution 48/218 B, by which it established OIOS to assist the Secretary-General in fulfilling his internal oversight responsibilities in respect of the resources and staff of the Organization through the exercise of the functions of monitoring, internal audit, inspection and evaluation and investigation, and General Assembly resolutions 54/244 and 59/272.

10. The Committee has always been diligent in ensuring that its activities remain strictly within the scope of its terms of reference (see General Assembly resolution 61/275, annex). In this respect, the observations, comments and recommendations in the present report focus on the effectiveness, efficiency and impact of the oversight functions of OIOS, in conformity with paragraph 2 (e) of the terms of reference of the Committee. The report presents only the most significant issues, with a particular focus on the issues that are relevant to the review by the General Assembly of OIOS functions and reporting. Information on issues related to OIOS internal processes and OIOS management will be discussed and presented to OIOS for information and action at the eighth session of the Committee in December 2009.

A. Effectiveness of the Office of Internal Oversight Services

11. The review of the effectiveness of OIOS focused on establishing the extent to which the Office "is doing the right things". The survey response recorded that 62 per cent of the respondents agreed or strongly agreed that OIOS fulfilled its mandate to assist the Secretary-General in his internal oversight responsibilities in respect of the resources and staff of the Organization. The same percentage of respondents (62 per cent) agreed or strongly agreed with the statement that OIOS was helping to strengthen the United Nations.

12. In the interviews with senior managers, the following emerged as significant issues in relation to the effectiveness of OIOS:

(a) Several managers stated that they did not clearly understand the role of OIOS or did not perceive OIOS as an internal oversight capacity that could assist management by conducting reviews of areas of concern proactively identified by management. The perception of managers was that the Office's view of its independence appeared to position it as more of an external auditor than an internal auditor;

(b) A majority of the senior managers interviewed (16 of 19) indicated that they saw little or no correlation between the OIOS workplan and their programme priorities, particularly as regards internal audit;

(c) Managers expressed dissatisfaction with the recording of their comments by OIOS in the final internal audit reports.

13. The issue of OIOS independence raised by management was corroborated by the Committee's observation that, in addition to the need for a definition of key oversight terms, a definition of the term "independence" in the context of internal oversight at the United Nations should be central to clarifying the role and responsibilities of OIOS. The Committee is of the view that, while other oversight terms should be defined by OIOS in consultation with the Department of Management and the Office of Legal Affairs, as previously recommended by the Committee (A/63/703, para. 22), the Committee itself is best placed to provide advice on the definition of the term independence.

1. Independence of internal oversight

14. Independence and objectivity are vital in ensuring that stakeholders view the audit work performed, and its results, as credible, factual and unbiased. OIOS, like most internal oversight bodies, has a unique position in the Organization in that internal oversight staff are employed by the Organization but are expected to report on the conduct of its management. This relationship has an innate tension since the independence of the internal oversight functions from those of management is necessary for objective evaluation of management's actions.

15. In establishing OIOS, the General Assembly decided that the Office should exercise operational independence under the authority of the Secretary-General in the conduct of its duties (resolution 48/218 B, para. 5 (a)). It subsequently clarified this decision by emphasizing that the operational independence of OIOS was related to the performance of its internal oversight functions (resolution 54/244, para. 18).

16. According to the International Organization of Supreme Audit Institutions, internal audit services necessarily are subordinate to the head of the department within which they have been established but should nevertheless be functionally and organizationally independent as far as possible within their respective constitutional framework.[a]

17. According to the globally accepted definition developed by the Institute of Internal Auditors, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations, which helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

18. Standard 1110 of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, concerning organizational independence, states that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfil its responsibilities, and that the chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity. It also states that independence for internal oversight is facilitated by the head of the internal oversight reporting functionally to the board and administratively to the organization's chief executive officer.

19. **Based on the General Assembly resolutions and the standards developed by the Institute of Internal Auditors and the International Organization of Supreme Audit Institutions, the Independent Audit Advisory Committee proposes that the role and operational independence of OIOS be defined as follows:**

> **The Office of Internal Oversight Services (OIOS) is an internal audit, evaluation, inspection and investigations unit within the United Nations. As such, OIOS should seek a constructive working relationship with management. It should consult with management in determining its concerns and the areas in need of attention prior to establishing any final engagement plans. OIOS should also comply with all United Nations regulations, rules, policies and procedures relating to personnel, ethics, contracting and other administrative matters, provided that they are consistent with the guidance on operational independence noted below. With regard to operational independence, OIOS should have an appropriate degree of real and perceived independence from the management of the United Nations and funds and programmes for which it provides oversight services. Operational independence includes, inter alia, the ability of OIOS to: determine its final workplans and the content of its final reports; make requests for adequate resources to undertake its work; conduct its work with the cooperation of management and all applicable parties, free from intervention; select staff for the Office; and communicate directly to the General Assembly and the Secretary-General in connection with matters of critical importance to the United Nations and/or the Office.**

[a] See *Lima Declaration of Guidelines on Auditing Precepts*, adopted by the Ninth Congress of the International Organization of Supreme Audit Institutions, Lima, 17-26 October 1977, chap. I, sect. 3, para. 2.

20. In accordance with the legislative decisions of the General Assembly (as stated in resolutions 48/218 B, 54/244 and 59/272), OIOS achieves its independence in the following ways:

(a) The head of OIOS, the Under-Secretary-General for Internal Oversight Services, is appointed by the Secretary-General following consultations with Member States approved by the General Assembly, and serves one fixed term of five years without the possibility of renewal. The removal of the Under-Secretary-General by the Secretary-General can only be for cause and with the approval of the General Assembly;

(b) *Work planning*. In accordance with paragraph 5 (a) of resolution 48/218 B, OIOS has the authority to initiate, carry out and report on any action which it considers necessary to fulfil its responsibilities with regard to monitoring, internal audit, inspection and evaluation and investigations. The Independent Audit Advisory Committee considers that, for OIOS to add value to the Organization, OIOS must consult with management on organizational priorities and risks and take into account the workplans of other oversight bodies at an early stage prior to preparing its own preliminary workplan. OIOS should give serious consideration to the comments, concerns and suggestions expressed by management. OIOS operational independence is achieved by the Under-Secretary-General for Internal Oversight Services having the authority to decide on the final workplan of the Office;

(c) *Unrestricted access*. The General Assembly, in resolution 48/218 B, paragraph 6, requested the Secretary-General to ensure that OIOS has procedures in place that provide for direct confidential access of staff members to the Office and for protection against repercussions, for the purposes of suggesting improvements for programme delivery and reporting perceived cases of misconduct. The General Assembly, in resolution 59/272, paragraph 3, decided that reports of OIOS shall be submitted directly to the General Assembly;

(d) *Personnel arrangements*. The General Assembly, in resolution 54/244, paragraph 19, decided that the recruitment and promotion of staff of OIOS shall be in accordance with the provisions of the Charter of the United Nations, the relevant resolutions and decisions of the General Assembly and Staff Regulations and Rules of the Organization, taking into account Article 101, paragraph 3, of the Charter. The Independent Audit Advisory Committee adds that OIOS must comply with the applicable United Nations financial and human resources regulations and rules, as well as with the specific policies, delegated authorities and personnel arrangements that exist for OIOS. In the opinion of the Committee, it is necessary for the operational independence of OIOS that the Under-Secretary-General for Internal Oversight Services has the authority to select OIOS staff for appointment and promotion;

(e) *Adequate resources*. The General Assembly, in resolution 48/218 B, paragraph 9, decided that the programme budget proposals of OIOS shall be submitted by it to the Secretary-General who, with due regard for the relevant provisions of General Assembly resolution 41/213 and for the necessity of providing adequate resources for the functioning of the Office to be effective, shall submit proposals to the General Assembly. Of importance in this regard is the responsibility of the Independent Audit Advisory Committee to review the

proposed budget of OIOS, taking into account its workplans, and to advise the General Assembly accordingly. This mechanism is critical for the independence of OIOS and for ensuring transparency in its proposed budget requests.

21. The Committee considers that, in order to understand the definition of independence, it is essential also to understand what constitutes impairment to independence. According to the interpretation by the Institute of Internal Auditors of standard 1130, on impairment to independence or objectivity, impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties, and resource limitations, such as funding. **In the context of the United Nations, impairment to OIOS independence will include any restriction to its ability to operate in accordance with its mandate from the General Assembly, including but not limited to, any restriction to its ability to determine its final workplans and the content of its final reports; make requests for adequate resources to undertake its workplans; conduct its work with the cooperation of management and all applicable parties, free from intervention; select staff for the Office; and communicate directly to the General Assembly and the Secretary-General in connection with matters of critical importance to the United Nations and/or the Office.**

22. An effective mechanism in improving the accountability of both management and the oversight activity is the requirement of an annual confirmation by the head of internal oversight to the governing board (or its designate) that the oversight activity was independent during the reporting period and, if not, then specific instances of impairment should be disclosed. **The Committee advises the General Assembly to consider instituting a requirement for the Under-Secretary-General for Internal Oversight Services to provide assurance to the Assembly in the annual report of OIOS that the Office was independent during the reporting period and, if not, disclose the specific details of impairment.**

23. The Committee concludes that, in regard to its independence, functions and reporting, OIOS may not be directly comparable to the traditional model of internal oversight entity found in many of the large private sector corporations. Indeed, the independence accorded by the General Assembly positions OIOS as a hybrid entity somewhat between internal and external oversight functions, and in some respects affords a higher level of independence than traditional internal oversight entities. Therefore, the Committee considers that there is a critical need for a detailed description of the import of the General Assembly resolutions relating to OIOS, as well as the specific policies and definition terms relating to OIOS and its functions, including the definition of OIOS independence, in order to provide clarification of the status of the Office for all stakeholders.

24. **The Independent Audit Advisory Committee recommends that the General Assembly consider requesting the Secretary-General to direct OIOS to prepare an internal oversight charter which would serve as the terms of reference of the Office, encompass all elements of the relevant decisions of the General Assembly and contain a detailed description of the mandate, authority, functions, accountability and reporting procedures of the Office and its relationship to the General Assembly (including the relationship with the Independent Audit Advisory Committee), the Secretary-General, management and other oversight bodies. The internal oversight charter should be updated to**

include all subsequent General Assembly decisions concerning OIOS. The Independent Audit Advisory Committee could provide advice to the General Assembly regarding the completeness of the internal oversight charter in reflecting the legislative decisions of the Assembly.

2. Consultation with management in the finalization of the internal audit workplan of the Office

25. In relation to the effectiveness of OIOS, 16 of the 19 senior managers interviewed stated that the workplan of OIOS, particularly as regards internal audit, had little or no correlation with their programme priorities. Managers were of the view that the OIOS work planning process should be more consultative in order to take into consideration the concerns and priorities of management.

26. Typically, the internal audit entity prepares its workplans based on its audit universe (i.e., the areas of the organization that fall within the scope of the entity), input from senior management and the board, and an assessment of the risk and exposures affecting the organization. The internal audit entity then prioritizes the use of audit resources using such risk factors as impact, likelihood, materiality, asset liquidity, management competence, degree of change or stability, timing and results of most recent audit engagement, complexity, and quality of and adherence to internal controls.

27. **Although programme managers and staff participate in the OIOS risk assessment workshops, the Independent Audit Advisory Committee considers that OIOS could add more value by including in the process a step to solicit input from applicable programme managers prior to as well as after preparing a draft audit workplan in order to give full consideration to the programme's priorities before the plan is finalized.**

3. Recording of comments of management in the final internal audit report

28. Of the 19 senior managers interviewed, 17 indicated varying degrees of dissatisfaction with the recording of the comments of management in the final OIOS reports. The OIOS process for finalizing its internal audit reports appears to be the same as in most organizations: at the end of the assignment, managers participate in an exit conference during which preliminary findings and recommendations are discussed; OIOS then prepares a draft report which is submitted to the relevant manager for comments and the report is then finalized, with the response of management recorded therein. The managers stated that their comments were often selectively recorded in the report or paraphrased in a manner that did not accurately present their response. The Independent Audit Advisory Committee considers that the increased sensitivity of managers is mainly due to the fact that, under the terms of General Assembly resolution 59/272, original versions of OIOS reports not submitted to the General Assembly are made available to Member States, upon request.

29. In internal oversight practice generally, it is not routine that a governing body has access to internal oversight reports in their original form. Therefore, in the context of the United Nations, some amendment to the process for finalizing internal oversight reports may be required to ensure that the comments of management are appropriately reflected in the final reports. **The Independent Audit Advisory Committee recommends that, in OIOS reports, the complete**

response of management be included as an annex. Programme managers should ensure that their responses are concise and directed at the issues in the report. OIOS would then consider and respond to comments of management as it deems appropriate.

30. In its information-gathering efforts, the Independent Audit Advisory Committee elicited several comments from senior managers on other issues that also have implications for OIOS effectiveness. These issues, which will be communicated directly to OIOS for its analysis and action, relate to the quality of OIOS reports and staff, and the relationship between OIOS and management.

B. Efficiency of the Office of Internal Oversight Services

31. The Committee's approach to reviewing OIOS efficiency was to establish the extent to which OIOS makes best use of its resources and conducts its functions in a timely manner. The significant issues that emerged from the interviews with senior managers are as follows:

(a) Reports of OIOS take too long to be finalized;

(b) The high number of recommendations issued and the repetitive nature of certain systemic recommendations, which result in an increasing number of recommendations for management to monitor and follow-up;

(c) The high vacancy rates within OIOS, which have an adverse effect on completion of the internal audit workplan.

1. Finalization of reports of the Office

32. Delays in the issuance of the final reports of OIOS were mentioned in several interviews with senior managers. The Committee noted that this appeared to be a more significant issue for managers located in Geneva, Nairobi and Vienna than it was for managers at United Nations Headquarters. This may be owing to the centralized structure of OIOS, where reports are finalized at OIOS headquarters in New York. In response to a survey question on the timespan between the start of an assignment and the issuance of the final report, 41 per cent of the respondents indicated that the timespan was reasonable, 32 per cent disagreed and 27 per cent neither agreed nor disagreed, or had no opinion.

33. The Independent Audit Advisory Committee considers it important that reports be finalized in a timely manner as the value of oversight work diminishes when reports take too long to complete. **The Committee will add the timeliness of reports as an issue to be followed up with OIOS during its quarterly sessions.**

2. Number of recommendations issued

34. The Office of Internal Oversight Services issued 2,041 recommendations in 2007 and 2,028 recommendations in 2008. While managers did not appear to question the reporting of critical recommendations that relate to high-risk areas, they did take issue with the inclusion of recommendations that were of low risk and those that were repetitions of recommendations pertaining to certain systemic findings. The cumulative effect of recording low-risk and repetitive recommendations adds an administrative burden on departments when they have to report periodically to

OIOS and the Management Committee on the status of implementation of recommendations.

35. **The Committee has noted the concerns of management and, in this respect, considers that the focus for both OIOS and management should be on the quality of recommendations and the value added, rather than the quantity of recommendations. Without making any judgement in regard to the number of recommendations, the Committee will monitor the situation and provide advice to OIOS to ensure that, where possible, recommendations that relate to systemic findings are not repeated in audits of organizational entities.**

3. Vacant posts in the Office

36. The Committee reported the high number of vacancies in OIOS to the General Assembly in February 2009 (A/63/737), raising the concern that the high number of vacant posts, in particular at the senior management levels, would have an adverse effect on the capacity and ability of the Office to accomplish its programme of work. In the interviews with senior managers, this emerged as a critical issue for three programmes, all of which provide extrabudgetary funding to OIOS for internal oversight services. The managers had expressed their dissatisfaction to OIOS and, at the time of the interviews, progress was being made in resolving the issues in all three programmes.

37. In its report on the United Nations peacekeeping operations accounts and operations for the financial period ended 30 June 2008 (A/63/5 (Vol. II), chap. II), the Board of Auditors reported that a significant number of audits planned by OIOS resident auditors in that period had not been undertaken or completed. According to the Board, only 32 per cent of the 201 audits planned for 2007 had been started and completed as at 31 December 2007. The Board attributed the delay in the completion of the audit plan to the high vacancy rate of 36 per cent for resident auditors. OIOS agreed with the findings of the Board, and explained that there had been an error in its planning assumptions which had overstated the number of days available per auditor.

38. The General Assembly, in resolution 63/287, took note of the observations and recommendations of the Independent Audit Advisory Committee contained in its report on vacant posts in OIOS and requested the Secretary-General to fill the vacancies in the Office, in accordance with the existing relevant provisions governing recruitment in the United Nations and the provisions of the resolution. By resolution 63/246 B, the General Assembly endorsed the recommendation of the Board of Auditors that the organization expedite the filling of all resident auditor posts to ensure the effective internal audit coverage of all missions.

39. According to the most recent information available to the Committee, the overall vacancy rate in OIOS is 22 per cent, which is an improvement on the 27 per cent vacancy rate reported by the Committee at the end of February 2009. All three posts at the Director level have not yet been filled; a recommendation concerning the Director of the Investigations Division has been submitted for approval by the Secretary-General and candidates for the Director of the Internal Audit Division and the Director of the Inspection and Evaluation Division are still under consideration. **The Independent Audit Advisory Committee will continue to monitor the implementation by OIOS of the recommendations relating to the filling of vacancies.**

C. Impact of the functions of the Office of Internal Oversight Services

40. A significant issue arising from the interviews of senior managers relates to the impact that the availability of OIOS reports to Member States is having on the relationship between OIOS and management. It is accepted that, pursuant to General Assembly resolution 59/272, the Secretary-General must ensure that original versions of the reports of OIOS not submitted to the General Assembly are, upon request, made available to any Member State. The effect of providing the reports to Member States is that some programme managers state that they are now reluctant to consult OIOS for advice or proactively request reviews in areas of concern to them since the report would be subject to release to Member States and, as has occurred under current practice, posted on the Internet.

41. In regard to the practices followed in other organizations, the Committee has met with a broad range of internal oversight experts during the course of its seven sessions, namely, several heads of oversight from organizations within and outside the United Nations system, including United Nations funds and programmes, the World Bank and the International Monetary Fund, and a representative of the Institute of Internal Auditors. In relation to the disclosure of internal oversight reports, the Committee noted that the practices in these organizations varied. In the case of the United Nations funds and programmes, the practice was to invite the members of the governing board to review the requested reports on site and discuss the report with the internal oversight office and management without providing copies. The Committee also noted that in some international private and public sector organizations, the internal oversight entities provide to the governing boards an annual or semi-annual report on all of their activities, containing a summary of the main findings and recommendations of each of the reports issued. The summaries are usually published and are accessible to the public.

42. **The Independent Audit Advisory Committee recognizes and supports the primacy of the intent of the General Assembly in resolution 59/272 to promote transparency and facilitate the access of Member States to internal oversight reports. However, the Committee advises the General Assembly that it may be timely for it to give consideration to how such reports are made available in the light of their further dissemination on the Internet, once copies are provided to Member States. The Committee considers that any revision to the current practice should not diminish the transparency or restrict disclosure of the details of internal oversight reports in which Member States may have an interest.**

43. **Further, the Committee recommends that the Secretary-General, in coordination with the Under-Secretary-General for Internal Oversight Services, formalize the protocol for making reports available to Member States, taking into account existing General Assembly resolutions and any of its subsequent decisions. This protocol should be incorporated into the internal oversight charter (see para. 25 above) and should provide instructions on the process for requesting reports and clarify when reports of each OIOS function are considered final and available to Member States. The protocol should also include an explanation of the circumstances under which the Under-Secretary-General for Internal Oversight Services may, in terms of General Assembly resolution 59/272, exercise discretion in modifying or withholding such reports.**

D. Conclusion

44. The principles contained in the General Assembly resolutions relating to OIOS are relevant and consistent with best practices in internal oversight. However, in relation to making internal oversight reports available to Member States, the implementation of the relevant General Assembly resolution may need to be reviewed and/or revised.

45. The Committee recognizes that the inherent nature of an oversight function can place internal oversight and management personnel in a challenging relationship which requires a concerted and constructive effort from both sides in order to enable OIOS to maximize its effectiveness, efficiency and impact on the work of the Organization. An internal oversight charter, including the definition of OIOS independence proposed by the Committee (see sect. A.1 above), will provide clarity for all stakeholders regarding the role of OIOS in the United Nations and will be the foundation for improvements in the partnership between oversight and management. In the opinion of the Committee, OIOS appears to be making progress with regard to the quality of work and adherence to international standards, but further effort is required to ensure that its risk-based work planning processes include input from management on programme priorities and the internal controls in place, that reports are issued in a timely manner with attention paid to the quality of recommendations and that vacancies are expeditiously filled.

46. The Independent Audit Advisory Committee presents the above observations, comments and recommendations for the consideration of the General Assembly in its evaluation and review of the functions and reporting procedures of the Office of Internal Oversight Services.